5 Returning Title IV Funds

CONTENTS

OBJECTIVES

By the end of this session, you will be able to:

- identify the conditions under which an institution may be required to return Title IV funds,
- understand the procedures for returning Title IV funds, including special requirements for returning funds to a lender,
- describe regulatory refund and repayment requirements,
- explain the differences between the “old” and “new” methods of calculating refunds,
- describe institutional responsibilities and student responsibilities under the “new” method of calculating refunds,
- calculate return of Title IV aid under the “new” method, and
- allocate returns to the appropriate Title IV programs.

RESOURCES

- *The Blue Book,* Chapter 2—General Institutional Responsibilities
- *The Blue Book,* Chapter 4—Requesting, Managing, and Returning Title IV Funds
- *Student Financial Aid Handbook*
- Federal Regulations 34 CFR Parts 668 and 682
- *Direct Loan Reconciliation Game Workbook*
- U.S. Department of Education *Policy Bulletin,* Calculating Institutional Refunds: What are Institutional Charges? (January 7, 1999)

A. DETERMINING WHEN RETURNING TITLE IV FUNDS IS REQUIRED

Returning Title IV Funds

Title IV funds must be returned when a school:

- is holding excess funds,
- is releasing campus-based funds,
- is returning FFEL or Direct Loan proceeds that cannot be delivered because student is no longer eligible, or
- has performed a refund calculation.

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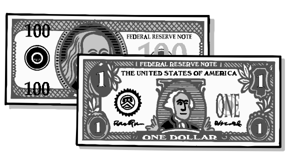
B. EXCESS CASH

Definition of Excess Cash

Excess cash is any amount of Title IV program funds (except for FFEL Program or Perkins Loan Program funds) that are not disbursed to students by the end of the third business day following receipt of the funds.



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Notes

REASONS WHY A SCHOOL MAY HAVE EXCESS CASH

- Funds were drawn down but not used according to “immediate need” rules.
- A school has no pending disbursements to make or is no longer participating in Title IV programs.
- There was a reduction in reported expenditures on a closed award.
- Interest or investment income on federal funds exceeds amounts allowed.
- The school owes ED for disallowed program expenditures discovered during an audit or program review. Examples include:
  - A school draws down funds and credits a student’s account, but the student does not attend school. The school cancels the disbursement and returns the funds to its federal cash account. Depending on the school’s cash needs, this action may result in the school having excess cash.
  - A school has excess cash because it drew down more than it disbursed to students. The cash was drawn down and deposited into the school’s cash account but never used. During a program review, the reviewer tells the school to return the excess cash or to adjust the school’s next drawdown if it is within the allowed time period.
  - A school draws down and disburses funds improperly. These improperly disbursed funds are a liability. The school is also responsible for reimbursing ED for interest on these funds. This situation occurs when a school credits a student’s account and fails to cancel the award when the student doesn’t attend school and when the school fails to provide matching funds for the campus-based programs.

EXCEPTIONS TO EXCESS CASH DEFINITION

- Schools under the just-in-time payment method are exempt since, by definition, they will have no excess cash.
- The amount of cash held by the school falls within regulatory tolerances.

1. Tolerances

Tolerances

Tolerance rules allow a school to have excess cash:

- during peak enrollment periods if it draws down and maintains excess cash of less than 3% of total prior-year drawdowns or
- during nonpeak enrollment periods if it draws down and maintains excess cash of less than 1% of total prior-year drawdowns.

School must eliminate excess cash within 10 days of receipt of funds (3 business days plus 7 tolerance days).

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- Peak enrollment occurs when at least 25 percent of a school's students start classes during a given 30-day period.

Calculating Peak Enrollment

To calculate the percentage of students who start classes within a given 30-day period:

Step 1: Determine number of students who started classes during that period in prior award year.

Step 2: Determine total number of students who started classes during the entire prior award year.

Step 3: Divide number in step 1 by number in step 2.

Step 4: Multiply result in step 3 by 100.

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- To determine total prior-year drawdowns, include all Title IV funds, including Direct Loans. Direct Loan schools may also include prior-year FFEL Program loans in their calculations.

Notes

2. Liabilities

Liabilities

If a school maintains excess cash in its account, ED may:

- require the school to reimburse the government for costs incurred by having excess funds held by the school, and
- take action to fine, limit, suspend, or terminate the school's participation in one or more Title IV programs.

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- Institutional liability is equal to the difference between the earnings any excess cash would have generated if invested under the applicable current value of funds rate and the actual interest earned.

C. METHODS FOR RETURNING FUNDS

- The procedure that a school follows to return funds depends on the circumstances that necessitated the return.

1. Excess Cash

Returning Excess Cash

To return excess cash, the school sends a check to:

U.S. Department of Education
P.O. Box 952023
St. Louis, MO 63195-2023

Remittance should include the school's DUNS number, Document Award number, name and telephone number of a contact, and the reason for the return.

Amounts of $100,000 or more must be returned by FEDWIRE.

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Notes

- See *GAPS Payee Guide* and Section 4.9, pages 4-35 and 4-36, of *The Blue Book* for more information.

2. Closed Award

- A school follows the same procedures for returning excess cash.
- *The Blue Book*, Section 4.9, page 4-35, has information about handling Federal Pell Grant decrease adjustments.

3. Funds From an Audit or Program Review

Returning Funds From an Audit or Program Review

- If a school owes funds:
  - a copy of the FPRD or FADL is sent to ED's Receivables and Cash Receipts Team (RCRT) and
  - RCRT sets up an account receivable.

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- A school may not account for disallowed funds from an audit or program review by reducing net drawdowns on its GAPS Activity Reports.
- Returned disallowed funds are credited to the school's GAPS account only for open awards.
- A school may not adjust a prior-year FISAP or Pell Grant processed payment information to reflect disallowed expenditures.
- A school may not directly repay FFEL Program lenders or the Direct Loan Servicing Center unless directed by ED.

Notes

4. Interest Earned

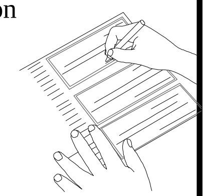
- Interest or investment earnings, in excess of amount school may retain, must be returned to ED at least annually.
- Exception is that all Federal Perkins Loan Program funds must be retained and used for authorized activities.

Returning Earned Interest

Schools must return excess interest or investment income by check.

- The check should be sent to:

  U.S. Department of Education
  P.O. Box 952023
  St. Louis, MO 63195-2023



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- The remittance should include the DUNS number, Document Award number, name and telephone number of a contact, and the reason for the return.

D. RELEASING CAMPUS-BASED FUNDS

Releasing Campus-Based Funds

- A school must return unexpended amounts of campus-based funds when it does not use its entire allocation.

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Notes

E. RETURNING LOAN FUNDS

1. Returning FFEL Funds

Returning FFEL Funds

FFEL funds must be returned if:

- student fails to enroll,
- student fails to meet satisfactory academic progress or FFEL eligibility requirements at the time loan is to be delivered,
- student withdraws or drops out before funds are delivered,
- refund is due as result of refund calculation, or
- borrower requests school to reduce the loan.

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Timelines for Delivering FFEL Funds

- FFEL funds received by check must be delivered within 30 days after being received.
- FFEL funds received by EFT or master check must be delivered no later than 10 business days after being received.
  - Beginning July 1, 1999, EFT and master check funds must be delivered within 3 business days.

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Notes

Withdrawal From School

If a student withdraws from school, school must return funds within 60 days from:

- date student officially withdraws,
- date student is expelled, or
- date school determines the unofficial date of withdrawal.

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Student Drops Out But Does Not Notify School

If student drops out but does not notify school, school must determine the withdrawal date within 30 days of the earliest of:

- date the school becomes aware the student has dropped out,
- end of the academic term for which the student dropped out, or
- expiration of the enrollment period for which the student was charged.

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